

DEBTOR-IN-POSSESSION CREDIT AGREEMENT

THIS DEBTOR-IN-POSSESSION CREDIT AGREEMENT (this “Agreement”) is entered into as of February ____ 2019 (the “Effective Date”), by and between TULARE LOCAL HEALTHCARE DISTRICT, a local healthcare district of the State of California (the “Borrower”), and the CITY OF TULARE, CALIFORNIA, an incorporated City in Tulare County, California (the “Lender”).

RECITALS

On September 30, 2017 (the “Petition Date”) the Borrower commenced bankruptcy case no. 17-13797 (the “Chapter 9 Proceeding”) pending in the United States Bankruptcy Court for the Eastern District of California, Fresno Division (“Bankruptcy Court”) as debtor under chapter 9 of title 11 of the United States Code (“Bankruptcy Code”).

The Borrower is the owner of an acute care general hospital located in Tulare, California, heretofore known as Tulare Regional Medical Center (“Hospital”) and other real properties in Tulare County. As of the Effective Date, the Borrower has leased the Hospital (“Lease”) to ADVENTIST HEALTH TULARE, an affiliate of ADVENTIST HEALTH SYSTEM WEST (collectively “Adventist Health”), with lease commencement pending Adventist Health’s general acute care hospital license of the Hospital (“AH License”) with the California Department of Public Health (“CDPH”). Upon receipt of the AH License, Adventist Health will operate the Hospital. Until that time, Borrower will operate the Hospital with Adventist Health managing the Hospital on Borrower’s behalf.

In furtherance of ongoing operational needs required for the District to continue to provide for health-related services to the community, including the ongoing ownership of the Hospital, Borrower has requested that Lender make post-petition loans and provide other financial or credit accommodations to the Borrower, and Lender has agreed, subject to the conditions set forth herein, to extend this revolving credit facility to the Borrower, in an aggregate principal amount not to exceed \$9,000,000 (“Loan Commitment”).

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and Lender hereby agree as follows:

ARTICLE I DEFINITIONS

SECTION 1.1. DEFINED TERMS. As used herein, the terms below shall have the following meanings.

“Affiliates” shall have the meaning set forth in Section 5031 of the California Corporations Code, as amended.

“Agreement” has the meaning ascribed to such term in the Preamble.

“Approved Budget” means the most recent budget delivered to Lender by the Borrower, which updated budget shall become the Approved Budget upon the approval by Lender in its sole

discretion; provided that the Borrower shall be permitted to (i) carry over any amounts not expended for a particular line item in any week to succeeding weeks, (ii) pay obligations on the Existing Bonds in accordance with existing documentation and any plan of adjustment or orders in the Chapter 9 Proceeding, including, without limitation obligations deferred during the Chapter 9 Proceeding; and (iii) otherwise expend more than the amounts set forth in a particular line item for a specific week in such week so long as the aggregate expenditures during the period covered by the Approved Budget (other than payments described in subsection (ii)) do not exceed the total shown on the Approved Budget. The initial Approved Budget, which Lender has approved, is attached as Schedule 1.1.

“Assets” means all right, title and interest of the Borrower in and to all the business, properties, assets and rights, whether tangible or intangible, real, personal or mixed, owned, leased or held by the Borrower, now owned or hereafter acquired.

“Availability” means, at any time of determination, an amount equal to (a) the aggregate Loan Commitment minus (b) the Outstanding Loan Amount.

“Bankruptcy Code” has the meaning ascribed to such term in the Recitals.

“Bankruptcy Court” has the meaning ascribed to such term in the Recitals.

“Borrower” has the meaning ascribed to such term in the Preamble.

“Borrowing” means a borrowing consisting of Loans made by Lender pursuant to Section 2.1 hereof. A Borrowing is “advanced” on the Funding Date.

“Borrowing Notice” has the meaning ascribed to such term in Section 2.1(c).

“Business Day” means a day other than a Saturday, Sunday or other day on which banks located in Tulare, California are authorized or required by Law to close.

“Chapter 9 Proceeding” has the meaning ascribed to such term in the Recitals.

“Closing Certificate” means a certificate signed by a Responsible Officer of the Borrower, dated on the applicable Funding Date, stating that: (i) each of the representations and warranties herein and in each of the other Loan Documents are true and correct in all material respects on and as of the applicable Funding Date (except to the extent that such representations and warranties relate solely to an earlier date in which case such representations and warranties was true, correct and complete in all material respects on and as of such earlier date; provided, that, if a representation and warranty is qualified as to materiality, with respect to such representation and warranty the materiality qualifier set forth herein shall be disregarded), (ii) no event has occurred and is continuing which with notice and the passage of time constitutes or would constitute an Event of Default and (iii) the proceeds of the proposed Borrowing shall be used in a manner not prohibited by this Agreement, including by Section 6.1 hereof, or by any other Loan Document, unless otherwise agreed to by Lender in its sole discretion.

“Collateral” has the meaning ascribed to such term in Section 2.3.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Commitment Termination Date” means the date sixty (60) months from the Effective Date.

“Debt” or “Indebtedness” means, for any Person (without duplication), (i) all indebtedness created, assumed or incurred in any manner by such Person representing money borrowed, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all obligations for the deferred purchase price of property or services (other than trade accounts payable arising in the ordinary course of business), (iv) all obligations secured by any Lien upon Property of such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, (v) all capitalized lease obligations of such Person, (vi) all obligations, contingent or otherwise, of such Person on or with respect to letters of credit, banker’s acceptances and other evidences of indebtedness representing extensions of credit whether or not representing obligations for borrowed money, and (vii) all guarantees.

“DIP Orders” has the meaning ascribed to such term in Section 3.15.

“Effective Date” has the meaning ascribed to such term in the Recitals.

“Encumbrances” means all liabilities, levies, claims, charges, assessments, mortgages, security interests, liens, pledges, conditional sales agreements, title retention contracts, leases, subleases, rights of first refusal, options to purchase, restrictions and other encumbrances, and agreements or commitments to create or suffer any of the foregoing.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414(b), (c), (m) or (o) of the Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043(c) of ERISA or the regulations issued thereunder, with respect to a Plan (other than an event for which the 30 day notice period is waived); (b) the failure of any Plan to satisfy the “minimum funding standard” (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(c) of the Code or Section 302(c) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any ERISA Affiliate of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan under Section 4041, Section 4042 or Section 4041A of ERISA or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any ERISA Affiliate of any liability with respect to the complete withdrawal or partial withdrawal (within the meaning of Sections 4203 or 4205 of ERISA, respectively) of the Borrower or any ERISA Affiliate from any Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice concerning (i) the imposition upon the Borrower or any ERISA Affiliate of Withdrawal Liability or (ii) a determination that a

Multiemployer Plan is, or is reasonably expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

“Evolutions Property” means that real property owned by Borrower located at 1425 R. Prosperity Avenue, Tulare, California

“Existing Bonds” means collectively, the General Obligation Bonds and the Revenue Bonds.

“Final DIP Order” has the meaning ascribed to such term in Section 3.15.

“Final Order” shall mean an order or judgment of the Bankruptcy Court or any other court of competent jurisdiction as entered on the docket in the Chapter 9 Proceeding or the docket of any such court, the operation or effect of which has not been stayed, reversed, or amended and as to which order or judgment (or any revision, modification, or amendment thereof) the time to appeal, petition for certiorari, or move for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending or as to which any appeal, petition for certiorari, reargue, or rehear shall have been waived in writing in form and substance satisfactory to Borrower and Lender, or, in the event that an appeal, writ of certiorari, or reargument or rehearing thereof has been sought, such order of the Bankruptcy Court or other court of competent jurisdiction shall have been determined by the highest court to which such order was appealed, or certiorari, reargument, or rehearing shall have been denied or resulted in no modification of such order and the time to take any further appeal, petition for certiorari, or move for reargument or rehearing shall have expired.

“Financial Statements” has the meaning ascribed to such term in Section 5.5.

“Funding Date” means the date on which a Borrowing occurs.

“GASB” shall mean Governmental Accounting Standards Board accounting principles consistently applied, as in effect from time to time.

“General Obligation Bonds” shall mean collectively, (i) the \$15,000,000 Tulare Local Health Care District (Tulare County, California) General Obligation Bonds, Election of 2005, Series A (2007); (ii) the \$8,595,000 Tulare Local Health Care District (Tulare County, California) General Obligation Bonds, Election of 2005, Series B-1 (2009)(Tax-Exempt); and (iii) the \$61,405,000 Tulare Local Health Care District (Tulare County, California) General Obligation Bonds, Election of 2005, Series B-2 (2009) (Federally Taxable-Direct Payment Build America Bonds).

“Government Authorizations” means all Permits, no objection letters, variances, clearances and other authorizations, consents and approvals of any Government Entity that are required to own or operate the Hospital, including applicable change of ownership application(s) with CDPH.

“Government Entity” means any local, state or federal government, including each of their respective branches, departments, agencies, commissions, boards, bureaus, courts, instrumentalities or other subdivisions, including the CDPH, the Medicare and Medi-Cal programs, TRICARE and Medicare Administrative Contractors.

“Government Healthcare Programs” means Medicare, Medi-Cal and TRICARE, and any other federal health care program as defined in 42 U.S.C. § 1320a-7b(f) or any other state or local health care programs.

“Hazardous Materials” means any chemical, substance, object, material, waste, or controlled substance, in the air, ground or water which is or may be hazardous to human health or safety or to the environment, due to its radioactivity, ignitability, corrosiveness, explosivity, flammability, reactivity, toxicity, infectiousness, or other harmful or potentially harmful properties or effects, including, without limitation, petroleum or petroleum products, asbestos, polychlorinated biphenyls, and all other chemicals, substances, materials, or wastes that are now listed, defined, or regulated in any manner by any Government Entity, or under any Law.

“Healthcare Laws” shall mean the Laws applicable to the operations of the Hospital, including Title XVIII of the Social Security Act, 42 U.S.C. §§ 1395-1395lll (the Medicare statute), including specifically, the Ethics in Patient Referrals Act, as amended, 42 U.S.C. § 1395nn; Title XIX of the Social Security Act, 42 U.S.C. §§ 1396-1396w-5 (the Medicaid statute); the Federal Health Care Program Anti-Kickback Statute, 42 U.S.C. § 1320a-7b(b); the False Claims Act, as amended, 31 U.S.C. §§ 3729-3733; the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801-3812; the Anti-Kickback Act of 1986, 41 U.S.C. §§ 51-58; the Civil Monetary Penalties Law, 42 U.S.C. §§ 1320a-7a and 1320a-7b; the Exclusion Laws, 42 U.S.C. § 1320a-7; the Clinical Laboratory Improvement Amendments of 1988 (42 U.S.C. § 263a et seq.); HIPAA; any similar state and local Laws that address the subject matter of the foregoing; any state Law or precedent relating to the corporate practice of the learned or licensed healthcare professions; any state Law concerning the splitting of healthcare professional fees or kickbacks; any state Law concerning healthcare professional self-referrals; kickbacks or false claims; any state healthcare professional licensure Laws, qualifications or requirements for the practice of medicine or other learned healthcare profession; any applicable state requirements for business corporations or professional corporations or associations that provide medical services or practice medicine or related learned healthcare profession; workers compensation; any applicable state and federal controlled substance and drug diversion Laws, including, the Federal Controlled Substances Act (21 U.S.C. § 801, et seq.) and the regulations promulgated thereunder; and all applicable implementing regulations, rules, ordinances and Orders related to any of the foregoing.

“HIPAA” means the Administrative Simplification provisions of title II, subtitle F, of the Health Insurance Portability and Accountability Act of 1996 (Public Law 104-191) and all regulations promulgated thereunder, including the Privacy Standards (45 C.F.R. Parts 160 and 164, Subparts A and E), the Electronic Transactions Standards (45 C.F.R. Parts 160 and 162), and the Security Standards (45 C.F.R. Parts 160 and 164, Subparts A and C), the Enforcement Rule (45 C.F.R. Part 160, Subparts C-E), and the Breach Notification Rule (45 C.F.R. Part 164, Subpart D), as amended by the Health Information Technology for Economic and Clinical Health Act, Title XIII of division A and Title IV of division B of the American Recovery and Reinvestment Act of 2009 (Public Law 111-5), as amended, the final HIPAA/HITECH Omnibus Rules published by the U.S. Department of Health and Human Services on January 25, 2013, and as otherwise may be amended from time to time.

“Hospital Campus Real Property” means the Premises as defined in the Lease.

“Initial Repayment Date” means July 31, 2019.

“Initial Draw” has the meaning ascribed to such term in Section 2.1(a).

“Insurance Policies” has the meaning ascribed to such term in Section 3.12.

“Interim DIP Order” has the meaning ascribed to such term in Section 3.15.

“Laws” means any applicable constitutional provision, statute, law, rule, regulation, code, ordinance, accreditation standard, resolution, Order, ruling, promulgation, policy, manual guidance, treaty directive, interpretation, or guideline adopted or issued by any Government Entity.

“Lease” means that certain real property lease by and among the District and Adventist Health covering the Hospital approved by the electorate of the District on November 6, 2018.

“Lender” has the meaning ascribed to such term in the Preamble.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Loan Commitment” has the meaning ascribed to such term in the Recitals.

“Loan Commitment Availability Period” means the period commencing on the date on which the Final DIP Order is approved and ending on the Commitment Termination Date.

“Loans” has the meaning ascribed to such term in Section 2.1(a).

“Loan Documents” has the meaning ascribed to such term in Section 3.2.

“Material Adverse Effect” means (a) a material impairment of the ability of the Borrower to perform any of its obligations under any of the Loan Documents, (b) a material adverse effect upon the legality, validity, binding effect or enforceability of any provision of this Agreement or any other Loan Document, (c) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise), or prospects of the Borrower, or (d) a material adverse change in, a material adverse effect upon, or a material impairment of the priority of Lender’s security interest in any Collateral securing the Obligations or the rights, remedies and benefits available to or conferred upon Lender under any Loan Document, in each case, that remains uncured after sixty (60) days’ notice to Borrower, as reasonably determined by Lender.

“Maturity Date” means the date sixty (60) months from the Effective Date.

“Mortgage” means collectively, any mortgage, deed of trust or other agreement which conveys or evidences a Lien in favor of Lender on the Evolutions Property and the other Real

Property Collateral of the Borrower, including any amendment, restatement, modification or supplement thereto.

“Multiemployer Plan” shall have the meaning set forth in Section 3(37) of ERISA or Section 4001(a)(3) of ERISA.

“Obligations” means all Loans to, and all debts, liabilities, obligations, covenants, indemnifications, and duties of, whether matured or unmatured, fixed or contingent, liquidated or unliquidated, the Borrower arising under any Loan Document or otherwise with respect to the Loans, in each case whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising.

“Order” means any judgment, order, writ, injunction, decree, determination, or award of any Government Entity.

“Outstanding Loan Amount” means with respect to any Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any Borrowings and prepayments or repayments of Loans, occurring on such date.

“Owned Real Property” means the real property, including all rights, covenants, easements and appurtenances in connection therewith, and including all buildings, improvements, structures, fixtures and appurtenances (but excluding any and all leasehold estates that constitute real property leases), owned by the Borrower, including the Hospital Campus Real Property, the Evolutions Property and the other Real Property Collateral.

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Permit” means any consent, ratification, registration, waiver, authorization, license, permit, grant, franchise, concession, exemption, order, notice, certificate or clearance issued, granted, given, or otherwise made available by or under the authority of any Government Entity or pursuant to any Law.

“Permitted Additional Debt” has the meaning ascribed to such term in Section 6.2 hereof.

“Permitted Encumbrances” means the Permitted Real Property Encumbrances.

“Permitted Real Property Encumbrances” shall mean (i) all liens for taxes and assessments not yet due and payable and (ii) liens for taxes, assessments and other charges, if any, the validity of which is being contested in good faith by appropriate action, and with respect to the Borrower, for which adequate reserves (as determined in accordance with GASB) have been established on Borrower’s books with respect thereto, (iii) easements, covenants and conditions of record and disclosed on any preliminary title report(s) obtained by Borrower and provided to Lender or obtained Lender prior to the Effective Date (“Title Reports”), (iv) those encumbrances listed on Schedule 3.9 attached hereto; (v) other liens the validity of which is being contested in good faith by appropriate action, and with respect to the Borrower, for which adequate reserves (as determined in accordance with GASB) have been established on Borrower’s books with respect

thereto; and (vi) any other matter disclosed to Lender and deemed in writing by Lender to be a Permitted Real Property Encumbrance.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Government Entity or other entity.

“Petition Date” has the meaning ascribed to such term in the Recitals.

“Plan” means each pension plan as defined in Section 3(2) of ERISA, other than a Multiemployer Plan, that is, or within the prior six years was, maintained or contributed to by the Borrower or any ERISA Affiliate or with respect to which the Borrower or any ERISA Affiliate had or has any liability.

“Real Property” means Owned Real Property and Leased Real Property.

“Real Property Collateral” means all Owned Real Property, excluding the Hospital Campus Property, upon which a Lien is granted by the Borrower for the benefit of Lender under the Mortgage.

“Repayment Date” means those dates on which the repayment of the Loan is required to be made pursuant to Section 2.1(f)(ii).

“Repayment Period” means the sixty (60) month period beginning with the Effective Date and ending on a date that is no later than the five year anniversary of the Commitment Termination Date in accordance with the terms of Section 2.1(e)(ii).

“Responsible Officer” of a Person means its chief restructuring officer, its chief executive officer, its chief financial officer, its treasurer or its senior vice president (whether or not the Person performing such duties is so designated) or any authorized designee thereof.

“Revenue Bonds” means, collectively, the \$17,850,000 Tulare Local Health Care District (Tulare County, California) Refunding Revenue Bonds, Series 2007.

“Title Report” has the meaning ascribed to such term above.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

ARTICLE II CREDIT TERMS

SECTION 2.1. REVOLVING LOANS.

(a) Loan Commitment. Subject to the terms and conditions of this Agreement, including without limitation each of the conditions in Section 4.2, Lender hereby agrees to make loans (“Loans”) to the Borrower (i) on or about the Effective Date, in an aggregate principal amount of up to \$6,000,000 (the “Initial Draw”) and (ii) from time to time on any Business Day

during the Loan Commitment Availability Period, in an aggregate principal amount at any time not exceeding the Loan Commitment (after taking into account and giving effect to the Initial Draw); provided, however, that after giving effect to any Borrowing, Availability must not be less than zero. The Outstanding Loan Amount together with interest accrued and unpaid thereon, shall constitute Obligations and shall be due and payable upon the commencement of the Repayment Period. Lender will not grant additional sums to the Borrower once Borrower has ended making interest only payments on the 36th month after the effective date. No additional funds will be granted by Lender once the Borrower has started making interest and principal payments, starting on the 37th month after the effective date

(b) Permitted Uses. The proceeds of the Loans shall be used to finance costs incurred by Borrower in its efforts to provide health-related services to District residents including people living in the City of Tulare. For the avoidance of doubt, proceeds of the Loans may be used for, among other uses, payment of District obligations relating to the Existing Bonds, in accordance with existing documentation, and any plan of adjustment or orders in the Chapter 9 Proceeding.

(c) Borrowing Procedure. Each Borrowing shall be made by a written, electronic or telephonic request by a Responsible Officer (such request, a “Borrowing Notice”) and received by Lender no later than 10:00 a.m. California time on the Business Day that is ten (10) Business Days prior to the requested Funding Date, specifying (A) the amount of such Borrowing; (B) the requested Funding Date (which shall be a Business Day); and (C) the anticipated uses of the proceeds of the Borrowing and the amount of the Borrowing allocated to each use (which in all cases shall be uses permitted pursuant to this Agreement or otherwise approved by Lender hereunder); provided, that Lender may, in its sole discretion, elect to accept as timely borrowing requests that are received later than 10:00 a.m. California time on the date that is ten (10) Business Days prior to the applicable Funding Date. The Borrower agrees that Lender may rely on any such telecopy or other telecommunication notice given by any person Lender in good faith believes is a Responsible Officer without the necessity of independent investigation. Not later than 5:00 p.m. on the date that is at least ten (10) Business Days after a properly and timely delivered Borrowing Notice pursuant to this Section 2.1(b), Lender shall make available such Borrowing to the Borrower, by wire transfer of such funds in accordance with instructions provided to (and reasonably acceptable to) the Lender by the Borrower; provided, however, that Lender shall have the right, in its sole discretion, to deny any request for a Borrowing pursuant to a Borrowing Notice if the anticipated uses of the proceeds of any Borrowing are not permitted pursuant to the terms of this Agreement. If Borrower requests Lender make the funds available via a wire transfer to Borrower, Borrower shall pay Lender a \$25.00 fee to cover Lender’s cost of the wire transfer.

(d) Optional Prepayment. The Borrower, may, upon notice to Lender, at any time or from time to time voluntarily prepay Loans in whole or in part without premium or penalty. Each such notice shall specify the date and amount of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein.

(e) Payment Obligations.

(i) Promise to Repay. The Borrower hereby unconditionally, irrevocably and absolutely agrees to make prompt and full payment of all payment obligations owed to the

Lender hereunder and to pay any other Obligations owing to Lender whether now existing or hereafter arising, irrespective of their nature, whether direct or indirect, absolute or contingent, with interest thereon at the rate or rates provided herein and under such Obligations.

(ii) Final Repayment of Loans. In addition to any payment to be made on the Maturity Date pursuant to this Section 2.1(e), the Borrower shall also repay all other amounts due and owing under this Agreement, including, but not limited to any outstanding interest due under Section 2.2 hereof on the Maturity Date.

(f) Required Payments.

(i) Origination Fee. On the Effective Date, Borrower shall pay to Lender the Origination Fee required by Section 2.2(a).

(ii) Interest Only Payments. Beginning with the month immediately after the Effective Date and continuing through the thirty-sixth (36th) month after the Effective date, Borrower shall on each January 31st and July 31st after the Initial Draw pay to Lender an amount equal to the Interest due under Section 2.2(c) for the six (6) months immediately preceding the month.

(iii) Principal and Interest Payments. Beginning with the thirty-seventh (37th) month immediately after the Effective Date and continuing through Maturity Date, Borrower shall on each January 31st and July 31st pay to Lender an amount equal to: (1) that portion of the then outstanding loan commitment amortized on a straight-line basis over the remaining period of the Loan plus (2) Interest due under Section 2.2(c) for the six (6) months immediately preceding the month.

SECTION 2.2. INTEREST/FEES.

(a) Origination Fee. Borrower agrees to pay Lender an origination fee for the loan in the amount of fifty-thousand dollars (\$50,000).

(b) Additional Costs and Fees. Borrower agrees to pay Lender for reasonable costs and fees accrued by City Attorney and staff in their review of credit agreement and other documents. Borrower will pay for those costs that accrued up to the close of escrow.

(c) Interest. Borrower agrees to pay interest on the unpaid principal amount of each Loan for the period commencing on the date of such Loan until such Loan is paid in full at a rate per annum equal to six (6) percent simple interest.

(d) Computation and Payment. Interest shall be computed on the basis of a 365/366-day year, actual days elapsed. Interest shall accrue for each Loan on the applicable Funding Date of each Loan, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, *provided* that any Loan that is repaid on the same day on which it is made shall bear interest for one day. Each determination by Lender of a fee hereunder shall be conclusive and binding for all purposes, absent manifest error. Accrued interest on each Loan shall be payable on each Repayment Date, for interest accrued during since the immediately

preceding Repayment Date; provided that the accrued interest payable on the Initial Repayment Date shall be interest accrued since the Effective Date.

SECTION 2.3. COLLATERAL. As security for the Obligations of the Borrower to Lender subject hereto, the Borrower shall grant to Lender Liens in the Real Property Collateral as follows: a first priority lien on all Real Property Collateral, subject to the Permitted Real Property Encumbrances.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

The Borrower makes the following representations and warranties to Lender, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect at all times while Lender remains committed to extend Loans to the Borrower hereunder and until the full and final payment, and satisfaction and discharge, of all Obligations of the Borrower to Lender subject to this Agreement. The representations based on the knowledge of the Borrower (the "Borrower's Knowledge Representations") shall be limited to the actual knowledge of Dan Heckathorne (Interim Chief Financial Officer), Teresa Jacques (Controller), and Kevin Northcraft (President, District Board of Directors); and Xavier Avila (District Director). Lender acknowledges that the Borrower has not undertaken any investigation related to the Borrower's Knowledge Representations out of the ordinary course of business.

SECTION 3.1. LEGAL STATUS. The Borrower is a political subdivision of the State of California, organized, existing and acting under and pursuant to the Local Health Care District Law of the State of California, constituting Division 23 of the California Health and Safety Code. The Borrower possesses all requisite power and authority necessary to own and operate the Assets and carry on its business as the same is now being conducted.

SECTION 3.2. AUTHORIZATION, VALIDITY AND BINDING EFFECT. Subject to any restrictions arising on account of the Borrower's status a "debtor" under the Bankruptcy Code, any required approvals of the Bankruptcy Court and receipt of other consents which the parties hereto contemplate will be obtained prior to the Effective Date this Agreement and each contract, instrument and other document required hereby or at any time hereafter delivered to Lender in connection herewith (collectively, including this Agreement and the Mortgage, the "Loan Documents") and the performance of the transactions contemplated hereby, including the grant by the Borrower of the security interests in the Collateral as contemplated hereby are within the Borrower's powers and have been duly authorized by the board of directors of the Borrower. Subject to any restrictions arising on account of the Borrower's status a "debtor" under the Bankruptcy Code, any required approvals of the Bankruptcy Court and receipt of other consents which the parties hereto contemplate will be obtained prior to the Effective Date, (i) the Borrower has all requisite power and authority to enter into, consummate and perform this Agreement and carry out all of the terms and provisions of this Agreement and (ii) upon their execution and delivery in accordance with the provisions hereof, the Loan Documents will constitute legal, valid and binding agreements and Obligations of the Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 3.3. NO VIOLATION. Subject to any restrictions arising on account of the Borrower's status as a "debtor" under the Bankruptcy Code, any required approvals of the Bankruptcy Court and receipt of other consents which the parties hereto contemplate will be obtained prior to the Effective Date, the execution, delivery and performance by the Borrower of the Loan Documents, including the grant by the Borrower of the security interests in the Collateral contemplated hereby and in the other Loan Documents:

(a) do not violate or conflict with:

(i) any provision of the governing documents of the Borrower; or

(ii) any order of any governmental or regulatory authority, any judgment, decree, order or award of any court, arbitrator, administrative agency or governmental authority or, to the knowledge of the Borrower, any material Government Authorization, or any material Law; or

(b) do not result in any conflict, breach of or default under any contract, obligation, indenture or other instrument to which the Borrower is a party or by which the Borrower may be bound (other than with respect to the Borrower, conflicts, breaches or defaults the enforcement of which have been stayed by virtue of the filing of the Chapter 9 Proceeding).

SECTION 3.4. CONSENTS. Except for the consents as set forth on Schedule 3.4(a) which have been or which the parties hereto contemplate will be obtained prior to the Effective Date, no consent, approval, authorization of or filing or registration with any Government Entity or any other Person is required to be obtained or made by the Borrower in order for the Borrower to consummate the transactions contemplated by the Loan Documents.

SECTION 3.5. LITIGATION, CLAIMS AND PROCEEDINGS. The Borrower has not been served with any summons, complaint or written notice to arbitrate, and no suit, litigation, claim (equitable or legal), administrative arbitration, investigation or other proceeding is pending or to the Borrower's knowledge, threatened, against the Borrower or affecting the Assets, or the business of the Borrower by or before any court, governmental department, commission, board, bureau, agency, mediator, arbitrator or other person or instrumentality, except: (a) the malpractice or negligence actions, claims, suits or proceedings set forth in Schedule 3.5(a); (b) the contract or general liability actions, claims, suits, or proceedings set forth in Schedule 3.5(b); and (c) the Borrower's pending Chapter 9 Proceeding and the claims, objections and proceedings therein. None of the actions, claims, suits, proceedings and matters set forth in Schedules 3.5(a) and 3.5(b) materially affects the value of the Assets or materially impairs the ability of the Borrower to perform the Borrower's Obligations.

SECTION 3.6. MATERIAL ADVERSE EFFECT. Except for the Chapter 9 Proceeding and the facts disclosed in the filings made in connection therewith, since the Petition Date, no event or condition has resulted in, or could be reasonably expected to cause, either individually or in the aggregate, a Material Adverse Effect.

SECTION 3.7. NO SUBORDINATION. Except for the Existing Bonds and agreements governing the Permitted Encumbrances, there is no agreement, indenture, contract or instrument to which the Borrower is a party or by which the Borrower may be bound that requires

the subordination in right of payment of the Borrower's Obligations subject to this Agreement to any other obligation of such Borrower.

SECTION 3.8. TITLE TO ASSETS. Except as specifically set forth in this Agreement, and except for Permitted Encumbrances, to the Borrower's knowledge, the Borrower has, and will have on the Effective Date, title to all of the Owned Real Property, free and clear of all liens, judgments, pledges, title defects, Encumbrances, leases, security interests, actions, claims, charges, conditions or restrictions of any nature whatsoever. Except for the Permitted Encumbrances and merchandise and other property sold or used in the ordinary course of business, to the Borrower's knowledge, the Borrower has not entered into any contract, commitment or arrangement that would cause any of the Owned Real Property to be subject to any security interest, claim, equity, pledge, mortgage, lien (including, without limitation, mechanics' and materialmen's liens) or Encumbrances whatsoever which will exist or come into existence after the Effective Date.

SECTION 3.9. REAL PROPERTY.

(a) Owned Real Property. As of the Effective Date: (i) the Owned Real Property is subject only to the Permitted Real Property Encumbrances, including but not limited to those listed on Schedule 3.9(a); and (ii) except for the Permitted Real Property Encumbrances and other than the Real Estate Leases, to the Borrower's knowledge, there are no purchase contracts, options, rights of first refusal, rights of first offer or first negotiation, restrictive covenants or other agreements of any kind, oral or written, formal or informal, choate or inchoate, recorded or unrecorded, whereby any person or entity will have acquired or will have any basis to assert any right, title or interest in the Owned Real Property. No officers, directors or employees of the Borrower, or relative of any of such officer, director or employee, has any direct or indirect interest in any of the Owned Real Property.

(b) Real Estate Leases. All leases, subleases, licenses, concessions, options, and other agreements relating to the occupancy of the Owned Real Property, including the right to all security deposits and other amounts and instruments deposited thereunder, are listed on Schedule 3.9(c) (collectively, the "Real Estate Leases"), and Seller has provided the Lender with a copy of such Real Estate Leases. Except as set forth in Schedule 3.9(c), (i) the Real Estate Leases have not been modified, amended, or assigned, are legally valid, binding and enforceable in accordance with their respective terms, and are in full force and effect; and (ii) to the Borrower's knowledge, there are no material defaults (or matters that upon written notice or lapse of time would constitute material defaults) by the Borrower or by any other party to the Real Estate Leases.

(c) Zoning. To Borrower's knowledge, the Real Property is zoned to permit the uses for which such Real Property is presently used and/or intended to be used, without variances or conditional use permits.

(d) Easements and Encroachments. To the Borrower's knowledge, the Borrower has all easements and rights of way, including without limitation, easements for all utilities, services, roadways and other means of ingress and egress, necessary for access to the Owned Real Property. Except as disclosed in the Title Report, none of such improvements encroach onto adjacent

property, violate set-back, building, or sideline requirements, or encroach onto any easements located on the Owned Real Property.

SECTION 3.10. ENVIRONMENTAL MATTERS.

(a) Use of Real Property and Condition. The Hospital Campus Real Property has been operated by the Borrower as an acute care hospital from the date of first licensure as such to the present—subject to the period under which licensure by the CDPH has been in suspense, which use included the handling of certain substances normally used in such hospitals some of which may be Hazardous Materials; the Borrower has no knowledge of any uses or operations of the Hospital Campus Real Property prior to such first acute care hospital licensure. The Borrower has no knowledge of any release or threatened release of any Hazardous Materials, at, under or about the Hospital Campus Real Property, which may give rise to any cost, penalty, expense, claim, demand, order, or liability, including, but not limited to, remediation or response action costs being imposed against the Borrower by any third party. The Borrower hereby represents and warrants to Lender that the Borrower is not aware of, nor has the Borrower received notification of any information which reasonably should have alerted the Borrower to become aware of, any environmental claim with respect to the Real Property, actual material violations of any statutes, regulations or laws relating to maintenance, disposition, release or handling of any Hazardous Materials at the Hospital, or with respect to the Real Property.

(b) Permits. Except with respect to the Borrower's general acute care hospital license with the CDPH that the parties anticipate will be active no later than the Effective Date, the Borrower has all environmental, health and safety Permits for any and all operations, activities, alterations, or improvements on the Real Property. The Borrower is in full compliance with the terms and conditions of such permits and all such Permits are presently in full force and effect.

(c) Violations. Except as set forth on Schedule 3.10(c), the Borrower has not: (a) entered into or been subject to any consent decree, compliance order, or administrative order with respect to the Real Property or operations thereon; (b) received notice under the citizen provision of any environmental Law in connection with the Real Property or operations thereon; (c) received any request for information, notice, demand letter, administrative inquiry, or complaint or claim with respect to any environmental condition relating to the Real Property or operations thereon; or (d) been subject to or threatened with any governmental or citizen enforcement action with respect to the Real Property or operations thereon; and the Borrower has no reason to believe that any of the above will be forthcoming.

SECTION 3.11. ERISA. Except as would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, (i) no ERISA Event has occurred or is reasonably expected to occur and (ii) the present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of such Plan. As of the date hereof (a) the Borrower is not an "employee benefit plan," as defined in Section 3(3) of ERISA, subject to Title I of ERISA, (b) the Borrower is not a "governmental plan" within the meaning of Section 3(32) of ERISA, and (c) to the Borrower's knowledge, transactions by or with the Borrower are not subject to any state statute, regulation or ruling regulating investments of, or fiduciary obligations with

respect to, governmental plans, and (d) none of the Assets of the Borrower constitutes “plan assets” of one or more such plans within the meaning of 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA. As of the date hereof, neither the Borrower nor any ERISA Affiliate maintains, sponsors or contributes to a Plan or a Multiemployer Plan.

SECTION 3.12. INSURANCE. Schedule 3.12 describes all insurance arrangements, including self-insurance, in place for the benefit of the Assets (collectively, the “Insurance Policies”). All Insurance Policies are in full force and effect and are issued by insurers of recognized responsibility. The insurance coverage provided by the Insurance Policies (a) is on such terms, (b) covers such categories of risk, (c) contains such deductibles and retentions, and (d) is in such amounts as, with respect to each of the criteria set forth in the foregoing clauses (a) through (d), as is adequate and suitable for the Assets. With respect to each Insurance Policy, (i) there are no claims pending as to which coverage has been questioned, denied or disputed by the underwriter(s) of such Insurance Policy, (ii) all premiums due have been paid, (iii) no notice of cancellation or termination has been given and (iv) the Borrower has complied in all material respects with the terms and provisions of such Insurance Policy.

SECTION 3.13. GOVERNMENT HEALTHCARE PROGRAMS. The Hospital is qualified for participation in Government Healthcare Programs. To the Borrower’s knowledge, no member of the medical staff of the Hospital has been excluded from participation in any Government Healthcare Program.

SECTION 3.14. COMPLIANCE WITH LAWS. To the knowledge of the Borrower, except as provided in Schedule 3.14, the Borrower is not in violation of any Laws, including Healthcare Laws, applicable to the Borrower, the operation of the Hospital which would result in a Material Adverse Effect.

SECTION 3.15. REORGANIZATIONAL MATTERS.

(a) The Chapter 9 Proceeding was commenced on the Petition Date in accordance in all material respects with applicable Law and proper notice thereof was provided by the Borrower and proper notice of (x) the motion seeking approval of the Loan Documents and entry of (i) an interim Order authorizing the Borrower’s entry into the Loan Documents and the Initial Draw (the “Interim DIP Order”) and a Final Order authorizing the Borrower’s entry into the Loan Documents and additional Borrowings thereunder (“the Final DIP Order”, and together with the Interim DIP Order, collectively, the “DIP Orders”) and (y) any hearing thereon will be given; provided, that the Borrower shall give, on a timely basis as specified in the DIP Orders, all notices required to be given to all parties specified in the DIP Orders.

(b) After the entry of each of the DIP Orders (and subject to the terms therein), and pursuant to and to the extent provided in each such DIP Order, the Obligations will be secured by a valid and perfected Lien on all of the Collateral.

(c) Once entered, the DIP Orders shall remain in full force and effect and shall not be reversed, stayed, modified or amended in an adverse manner without Lender’s consent.

(d) The Approved Budget and all projected balance sheets, income statements and cash flow statements of the Borrower delivered to Lender were prepared in good faith on the basis of

the assumptions stated therein, which assumptions were believed in good faith by the Borrower to be fair in light of the conditions existing at the time of delivery of such report or projection.

(e) The Borrower's plan of adjustment in the Chapter 9 Proceeding shall not contradict or supersede any provision of this Agreement or any of the Loan Documents.

SECTION 3.16. OTHER OBLIGATIONS. Except as set forth on Schedule 3.16, the Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 3.17. EVENT OF DEFAULT. No Event of Default has occurred and is continuing, or would result after effect to the borrowing of any Loan.

SECTION 3.18. DEBT. The Borrower has not incurred any Debt, other than Debt permitted under Section 6.2 of this Agreement.

SECTION 3.19. ORDERS, DECREES AND RULINGS. Except for the Chapter 9 Proceeding and any court orders, decrees or rulings thereunder, the Borrower is not a party to any order, decree or ruling of any court or administrative agency, federal, state or local, nor has the Borrower any contracts, formal or informal, with any such agency that could materially and adversely affect the ability of the Borrower to perform its obligations hereunder or conduct its business.

SECTION 3.20. ACCURACY OF REPRESENTATIONS AND WARRANTIES. To the knowledge of the Borrower, no representation or warranty of the Borrower contained in this Agreement, or any statement, document or certificate furnished or to be furnished to Lender, or in connection with the transactions contemplated hereby, is incomplete, inaccurate, or contains any untrue statement of any material fact known to the Borrower, or intentionally omits to state any material fact known to the Borrower necessary to make the statements contained therein not misleading.

ARTICLE IV CONDITIONS

SECTION 4.1. CONDITIONS OF INITIAL EXTENSION OF LOANS. The obligation of Lender to extend any Loans contemplated by this Agreement is subject to the fulfillment to Borrower's satisfaction of all of the following conditions:

(a) Approval of Lender Counsel. All legal matters incidental to the extension of the Loans by the Lender shall be satisfactory to Lender's counsel.

(b) Documentation. Lender shall have received, in form and substance satisfactory to Lender, each of the following, duly executed:

- (i) This Agreement.
- (ii) Certificate of Incumbency of the Borrower.

- (iii) Resolutions of the Board of the Directors of the Borrower approving and authorizing the Borrower's execution, delivery and performance of the Loan Documents.
- (iv) Charter (or similar formation document) of the Borrower.
- (v) Bylaws (or similar governing document) of the Borrower.
- (vi) Certificate of good standing of the Borrower, if any.
- (vii) Borrowing Notice.
- (viii) A certified copy of the Interim DIP Order.
- (ix) Lease
- (x) Closing Certificate.
- (xi) Such other documents as Lender may require under any other section of this Agreement.

(c) Representations and Warranties. Each of the representations and warranties herein and in each of the other Loan Documents shall be true and correct in all material respects on and as of the initial Funding Date (except to the extent that such representations and warranties relate solely to an earlier date in which case such representations and warranties shall have been true, correct and complete in all material respects on and as of such earlier date; provided, that, if a representation and warranty is qualified as to materiality, with respect to such representation and warranty the materiality qualifier set forth above in this clause (c) shall be disregarded).

(d) No Event of Default. No event shall have occurred and be continuing which with notice and the passage of time constitutes or would constitute an Event of Default.

(e) Approved Budget. Lender shall have received the Approved Budget. The Borrower shall have complied with such Approved Budget, and the aggregate amount of Loans, after giving effect to such disbursement, shall not exceed the amount set forth in the Approved Budget without giving effect to any variance permitted by the proviso of the definition of "Approved Budget."

(f) Financial Condition. Since the Petition Date, no event or condition shall have occurred or resulted in, or could be reasonably expected to cause, either individually or in the aggregate, a Material Adverse Effect.

(g) Insurance. The Borrower shall have delivered to Lender evidence of insurance coverage on the Collateral, in form, substance, amounts, covering risks and issued by companies reasonably satisfactory to Lender, and where required by Lender, with loss payable endorsements in favor of Lender.

(h) Interim DIP Order. The Bankruptcy Court shall have entered the Interim DIP Order approving this Agreement and the other Loan Documents, in form and substance satisfactory to

Lender. The Interim DIP Order shall be in full force and effect and shall not have been reversed, modified, amended or stayed (other than with prior written consent of Lender, which consent may be withheld in Lender's sole discretion).

SECTION 4.2. CONDITIONS OF EACH SUBSEQUENT EXTENSION OF LOANS. The obligation of Lender to make each extension of Loans requested by the Borrower hereunder shall be subject to the fulfillment to Lender's satisfaction of each of the following conditions:

(a) Compliance. Each of the representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on each Funding Date (except to the extent that such representations and warranties relate solely to an earlier date in which case such representations and warranties shall have been true, correct and complete in all material respects on and as of such earlier date; provided, that, if a representation and warranty is qualified as to materiality, with respect to such representation and warranty the materiality qualifier set forth above in this clause (a) shall be disregarded), and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Availability. After giving effect to any Borrowing, Availability shall be not be less than zero.

(c) Funding Date. The applicable Funding Date shall not occur outside of the Loan Commitment Availability Period.

(d) Documentation. Lender shall have received a certified copy of the Final DIP Order, Borrowing Notice, Closing Certificate, and all additional documents which it may require in connection with such extension of Loans.

(e) DIP Orders. The Bankruptcy Court shall have entered the DIP Orders approving this Agreement and the other Loan Documents, in form and substance satisfactory to Lender. The DIP Orders shall be in full force and effect and shall not have been reversed, modified, amended or stayed (other than with prior written consent of Lender, which consent may be withheld in Lender's sole discretion).

ARTICLE V AFFIRMATIVE COVENANTS

The Borrower covenants that so long as Lender remains committed to extend Loans to the Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of the Borrower to Lender under any of the Loan Documents remain outstanding, and until payment in full of all Obligations of the Borrower subject hereto, the Borrower shall, unless Lender otherwise consents in writing:

SECTION 5.1. MAINTENANCE OF EXISTENCE AND PROPERTIES. The Borrower shall preserve and maintain its existence. The Borrower shall preserve and keep in force and effect all licenses, Permits, franchises, approvals, patents, trademarks, trade names, trade

styles, copyrights, and other proprietary rights necessary to the proper conduct of its operations where the failure to do so could reasonably be expected to have a Material Adverse Effect. The Borrower shall maintain, preserve, and keep its property, plant, and equipment in good repair, working order and condition (ordinary wear and tear excepted), and shall from time to time make all needful and proper repairs, renewals, replacements, additions, and betterments thereto so that at all times the efficiency thereof shall be fully preserved and maintained, except (a) to the extent that, in the reasonable business judgment of such Person, any such property is no longer necessary for the proper conduct of the business of such Person, or (b) to the extent that any failure to maintain, preserve and keep its property, plant, and equipment in good repair, working order and condition or any failure to make needful and proper repairs, renewals, replacements, additions, and betterments thereto could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.2. PUNCTUAL PAYMENTS. Except as restricted or prevented by the Bankruptcy Code, the filing of the Chapter 9 Proceeding, an order of the Bankruptcy Court, punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein, and immediately upon demand by Lender, the amount by which the Outstanding Loan Amount subject hereto at any time exceeds the Loan Commitment.

SECTION 5.3. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Lender, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of the Borrower.

SECTION 5.4. INSPECTION. The Borrower shall permit the Lender and its duly authorized representatives and agents to visit and inspect any of its property, books, and financial records, to examine and make copies of its books of accounts and other financial records, and to discuss its affairs, finances, and accounts with, and to be advised as to the same by, its officers and independent public accountants (and by this provision the Borrower hereby authorizes such accountants to discuss with Lender and such representatives the finances and affairs of the Borrower) at such reasonable times during business hours and intervals as Lender may designate and, so long as no Event of Default exists, with reasonable prior notice to the Borrower; provided that this right is subject to all applicable federal and state laws and regulations; and provided, further that the Borrower reserves the right to restrict access to its property or any portion thereof in accordance with reasonably adopted procedures relating to safety, privacy and security.

SECTION 5.5. FINANCIAL STATEMENTS. Provide to Lender with all of the following, in form and detail satisfactory to Lender (the documents referred to in clauses (a) and (b) below are referred to collectively as the “Financial Statements”):

(a) not later than 180 days after and as of the end of each fiscal year of the Borrower, audited consolidated financial statements of the Borrower, prepared by a certified public accountant reasonably acceptable to Lender, to include balance sheets, income statements and statements of cash flows;

(b) not later than 30 days after and as of the end of each calendar month, consolidated financial statements of the Borrower, prepared by the Borrower, to include balance sheets, income statements and statements of cash flows;

(c) not later than 60th day of each fiscal year and covering such fiscal year, financial projections for the Borrower prepared by Borrower, as approved by the board of directors of the Borrower, together with any certification of approval as Lender may require;

(d) not later than 60 days after and as of the end of each fiscal quarter, an update to the annual financial projections most recently provided pursuant to clause (c) above;

(e) contemporaneously with each annual and monthly financial statement of the Borrower required hereby, a certificate of the president or chief financial officer (or comparable officer) of the Borrower that said financial statements are, in all material respects, complete and correct and present fairly the consolidated financial condition of the Borrower and that there exists no Event of Default or any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default;

(f) from time to time such other information as Lender may reasonably request.

SECTION 5.6. COMPLIANCE. Preserve and maintain all licenses, Permits, governmental approvals, rights, privileges and franchises necessary for the conduct of the Borrower's operations; and comply with the provisions of all documents pursuant to which the Borrower is organized and/or which govern the Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to the Borrower and/or its operations.

SECTION 5.7. INSURANCE. Maintain and keep in force, insurance of the types and in amounts customarily carried in similar types of operations, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Lender, and deliver to Lender from time to time at Lender's request schedules setting forth all insurance then in effect.

SECTION 5.8. FACILITIES. Keep all properties useful or necessary to the Borrower's operations in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 5.9. TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes of the Borrower, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as the Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which the Borrower has made provision, to Lender's reasonable satisfaction, for eventual payment thereof in the event the Borrower is obligated to make such payment.

SECTION 5.10. LITIGATION. Promptly give notice in writing to Lender of any litigation pending or threatened against the Borrower.

SECTION 5.11. NOTICE TO LENDER. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Lender in reasonable detail of: (a) the occurrence for which it has knowledge of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of the Borrower; (c) any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which the Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting the Borrower's property with a value exceeding \$250,000.

SECTION 5.12. COMPLIANCE WITH ENVIRONMENTAL LAWS.

(a) Comply with all Environmental Laws, except such non-compliance as could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) Obtain, maintain in full force and effect and comply with all Permits necessary to the ownership and operation of its properties and Assets or to the conduct of its business, except to the extent that a failure to do so could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) Comply in a timely manner with all Environmental Laws including those relating to the release of Hazardous Materials, together with any other applicable legal requirements for conducting, on a timely basis, periodic tests, monitoring and remediation of contamination of the Environment, and diligently comply with the regulations of the United States Environmental Protection Agency and any other applicable Government Entity, except where the failure to do so could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 5.13. ERISA. Deliver to Lender such certifications or other evidence from time to time throughout the term of the Loan, as may be reasonably requested by Lender in its sole discretion, that (a) the Borrower is not an "employee benefit plan" as defined in Section 3(3) of ERISA, which is subject to Title I of ERISA, or a "governmental plan" within the meaning of Section 3(32) of ERISA; (b) to the Borrower's knowledge, the Borrower is not subject to any state statute, regulation or ruling regulating investments of, or fiduciary obligations with respect to, governmental plans; and (c) one or more of the following circumstances is true:

(i) Equity interests in the Borrower are publicly offered securities, within the meaning of 29 C.F.R. §2510.3-101(b)(2);

(ii) Less than twenty-five percent (25%) of each outstanding class of equity interests in the Borrower is held by "benefit plan investors" within the meaning of 29 C.F.R. §2510.3-101(f)(2), as modified by ERISA Section 3(42), disregarding the value of any equity interests in the Borrower held by (I) a person (other than a benefit plan investor) who has discretionary authority or control with respect to the Assets of the Borrower, (II) any person who provides investment advice for a fee (direct or indirect) with respect to the Assets of the Borrower, or (III) any affiliate of a person described in the immediately preceding clause (I) or (II); or

(iii) The Borrower qualifies as an “operating company” or a “real estate operating company” within the meaning of 29 C.F.R. §2510.3-101(c) or (e).

ARTICLE VI NEGATIVE COVENANTS

The Borrower further covenants that so long as Lender remains committed to extend credit to the Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of the Borrower to Lender under any of the Loan Documents remain outstanding, and until payment in full of all Obligations of the Borrower subject hereto, the Borrower will not, without Lender’s prior written consent:

SECTION 6.1. USE OF PROCEEDS. Use any of the proceeds of any Loan extended hereunder except for purposes expressly authorized by this Agreement, or otherwise approved by Lender in its sole discretion.

SECTION 6.2. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of the Borrower to Lender, (b) obligations relating to the Existing Bonds; (c) any other liabilities of such Borrower existing as of, and disclosed to Lender in writing prior to, the Effective Date [, and (d) equipment purchase money debt owed to a lender other than Lender and secured by the purchased equipment, provided the amount of such debt incurred in any fiscal year does not exceed the value of such purchased equipment (as measured separately for each equipment purchase and not in the aggregate) (such Indebtedness, the “Permitted Additional Debt”).

SECTION 6.3. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of the Borrower’s operations as conducted as of the Effective Date; acquire all or substantially all of the Assets of any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of the Borrower’s Assets except (i) in the ordinary course of its business; (ii) in connection with the Transactions; (iii) dispositions of Assets with nominal value; (iv) dispositions of Assets (other than Real Property Collateral) for fair market value under conditions that will not cause a Material Adverse Effect; or (v) with respect to Real Property Collateral, dispositions for fair market value where net proceeds are applied to the Loans, and, if the then current balance on the Loans is satisfied, are applied to Borrower obligations secured by liens on the affected property, in their order of priority.

SECTION 6.4. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any Assets of the Borrower as security for, any liabilities or obligations of any other Person, except any of the foregoing in favor of Lender.

SECTION 6.5. LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any Person, except any of the foregoing existing as of, and disclosed

to Lender prior to, the Effective Date, and additional loans or advances made in the ordinary course of the Borrower's operations.

SECTION 6.6. ENCUMBRANCES. Mortgage, pledge, grant or permit to exist a security interest in, or Lien upon, all or any portion of the Borrower's Assets now owned or hereafter acquired, except (i) any of the foregoing in favor of Lender or which is existing as of, and disclosed to Lender in writing prior to, the Effective Date, (ii) Permitted Encumbrances, or (iii) as otherwise expressly permitted pursuant to this Agreement and other Loan Documents.

SECTION 6.7. CERTAIN AGREEMENTS. Except in connection with a Permitted Encumbrance, agree with any Person other than Lender that the Borrower will mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of the Borrower's Assets now owned or hereafter acquired.

SECTION 6.8. COMMUNICATIONS WITH THE BANKRUPTCY COURT. Fail to provide to Lender prior notice and copies of any material motions or other material documents to be filed with the Bankruptcy Court in the Chapter 9 Proceeding.

SECTION 6.9. ERISA. (a) Engage in any transaction which would cause any obligation, or action taken or to be taken, hereunder (or the exercise by Lender of any of its rights under this Agreement or the Loan Documents) to be a non-exempt (under a statutory or administrative exemption) prohibited transaction under Section 406 ERISA or Section 4975 of the Code or constitute a violation of any state statute, regulation or ruling impacting a governmental plan, or (b) permit the Assets of the Borrower to become "plan assets", within the meaning of 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA.

ARTICLE VII EVENTS OF DEFAULT

SECTION 7.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) The Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Lender in connection with, or any representation or warranty made by the Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any material default by the Borrower in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those specifically described as an "Event of Default" in this Section 7.1), and with respect to any such default that by its nature can be cured, such default shall continue for a period of sixty (60) days after notice to Borrower from Lender.

(d) Any event of default by the Borrower shall have occurred under the Loan Documents.

(e) Except as set forth on Schedule 7.1(e), or to the extent resulting from the filing of the Chapter 9 Proceeding and where the applicable creditors are not actively pursuing any remedies against the Borrower or are prohibited by applicable Law from doing so, any material default in the payment or performance of any obligation, or any defined event of default, that continues beyond any applicable cure period, under the terms of any contract, instrument or document (other than any of the Loan Documents) pursuant to which the Borrower has incurred any debt or other liability to any Person in an amount exceeding \$500,000.

(f) The Borrower shall, after giving effect to the Borrower's anticipated plan of adjustment in the Chapter 9 proceedings, become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or, except as to debts the Borrower is excused or barred from paying on a current basis as a result of the Chapter 9 Proceeding, shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; or, other than the Chapter 9 Proceeding, the Borrower shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Code, or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or the Borrower shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or, other than in connection with the Chapter 9 Proceeding, the Borrower shall be adjudicated a bankrupt, or an order for relief shall be entered against the Borrower by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against the Borrower and such involuntary petition or proceeding remains undismissed for a period of sixty (60) days after it is filed or commenced.

(g) The filing of a notice of judgment lien against the Borrower; or the recording of any abstract of judgment against the Borrower in any county in which the Borrower has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the Assets of the Borrower; or the entry of a judgment against the Borrower

(h) , in each case that has a Material Adverse Effect. The occurrence of an ERISA Event which has resulted or could reasonably be expected to result in liability of the Borrower in an aggregate amount exceeding \$250,000.

(i) Other Bankruptcy Related Events of Default.

(i) The Chapter 9 Proceeding is dismissed or the Borrower shall file a motion or other pleading or support a motion or other pleading filed by any other Person seeking the dismissal of the Chapter 9 Proceeding under the Bankruptcy Code or otherwise; a trustee or an examiner with enlarged powers relating to the operation of the business shall be appointed in the Chapter 9 Proceeding or the Borrower shall file a motion or other pleading or shall consent to a motion or other pleading filed by any other Person seeking any of the foregoing; or

(ii) an order of the Bankruptcy Court shall be entered granting any super priority claim or any Lien which is pari passu with or senior to the claims of the Lender against the Borrower hereunder, or there shall arise or be granted any such pari passu or senior super priority claim or the Borrower shall file a motion or other pleading or support a motion or other pleading filed by any other Person requesting any of the foregoing; or

(iii) the Bankruptcy Court shall enter an order or orders granting relief from the automatic stay applicable under section 362 of the Bankruptcy Code (i) to the holder or holders of any security interest or state or local environmental or regulatory agency or authority to proceed against, including foreclosure (or the granting of a deed in lieu of foreclosure or the like) on, any Real Estate Collateral of the Borrower that have a value in excess of \$250,000 in the aggregate, or (ii) any other Assets of the Borrower that have a value in excess of \$500,000; or

(iv) an order of the Bankruptcy Court (or any other court of competent jurisdiction) shall be entered, whether on appeal or otherwise, (A) without the written consent of Lender, reversing, staying or vacating either of the DIP Orders, (B) without the written consent of Lender, amending, supplementing or modifying either of the DIP Orders or (C) denying or terminating the use of cash collateral by the Borrower; or the Borrower shall file a motion or other pleading or shall support a motion or other pleading filed by any other Person seeking any of the foregoing; or

(v) default shall be made by the Borrower in the due observance or performance of any term, condition or obligation contained in either of the DIP Orders beyond any grace period for such specific default set forth therein or herein; or

(vi) subject to entry of the DIP Orders, the Bankruptcy Court shall enter an order imposing, surcharging or assessing against Lender's interest in the Collateral, any costs of expenses, or the Borrower shall file a motion or other pleading or support a motion or other pleading filed by any other Person requesting the foregoing; or

(vii) the Borrower, or any Person claiming by or through the Borrower, shall obtain court authorization to commence, or shall commence, join in, assist or otherwise participate as an adverse party in any suit or other proceeding against Lender in any manner relating to the Loan Documents;

(viii) the Borrower contests the validity or enforceability of any provision of any Loan Document or the validity, extent, perfection or priority of a Lien in favor of Lender on the Collateral or shall support or consent to any other Person contesting the foregoing; or

(ix) the filing by the Borrower of any plan of adjustment that contradicts either of the DIP Orders, including the payment terms provided by the DIP Orders,

or any of the other Loan Documents, other than as agreed to by Lender, or the Borrower shall file a motion or other pleading or support a motion or other pleading filed by any other Person requesting approval of any such plan.

SECTION 7.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of the Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Lender's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by the Borrower; (b) the obligation, if any, of Lender to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Lender shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. Lender shall have the right to apply proceeds of any Real Property Collateral to the payment of Obligations in such order as Lender elects. All rights, powers and remedies of Lender may be exercised at any time by Lender and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VIII MISCELLANEOUS

SECTION 8.1. NO WAIVER. No delay, failure or discontinuance of Lender in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Lender of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 8.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address

BORROWER: Tulare Local Healthcare District
1255 N. Cherry #536
Tulare, California 93274
Attention: Kevin Northcraft, President,
Michael Jamaica, Vice President

With a copy to: McCormick Barstow, LLP
7647 North Fresno Street
Fresno, California 93720
Attention: Todd Wynkoop, Esq.

LENDER: City of Tulare
411 East Kern Avenue
Tulare, California 93274
Attention: Darlene Thompson, Finance Director

With a copy to: Griswold LaSalle Cobb Dowd & Gin, LLP
111 East Seventh Street
Hanford, California 93230
Attention: Mario U. Zamora, Esq.

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 8.3. COSTS, EXPENSES AND ATTORNEYS' FEES. The Borrower shall pay to Lender immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees), expended or incurred by Lender in connection with (a) Lender's continued administration of this Agreement (from and after the Effective Date) and the other Loan Documents, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Lender's rights and/or the collection of any amounts which become due to Lender under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Lender or any other Person) relating to the Borrower or any other Person. All such amounts due and owing pursuant to this Section shall be Obligations under this Agreement and secured by the Collateral.

SECTION 8.4. SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that the Borrower may not assign or transfer its interests or rights hereunder without Lender's prior written consent. Lender reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Lender's rights and benefits under each of the Loan Documents. In connection therewith, Lender may disclose all documents and information which Lender now has or may hereafter acquire relating to any Loans subject hereto, the Borrower or the operations of the Borrower, or any collateral required hereunder.

SECTION 8.5. ENTIRE AGREEMENT; AMENDMENT. This Agreement, and other Loan Documents constitute the entire agreement between the Borrower and Lender with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 8.6. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns. No other Person shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 8.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 8.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 8.9. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 8.10. DISCLOSURE. Except insofar as data and information may be required by Law to be disclosed or is available to the public, each of the Borrower and Lender agrees at all times to hold in strict confidence and not use to the detriment of the other party all data and information obtained in connection with this transaction and Agreement which relates to the business or operations of the other party. Neither the Borrower nor Lender, nor any of their Affiliates, shall issue or cause the publication of any press release or other announcement regarding the transactions contemplated by this Agreement without the consent of the other Parties, which consent shall not be unreasonably withheld, or withheld for any reason where such press release or announcement is required by applicable Law.

SECTION 8.11. GOVERNING LAW. This Agreement shall be governed by, and shall be construed and enforced in accordance with, the internal Laws (not the choice of law) of the State of California and the Bankruptcy Code, as applicable. Each of Borrower and Lender agrees to submit to the jurisdiction of the Bankruptcy Court and the courts of the State of California. Unless prohibited by law or as the result of a court order (excluding any order entered at the request of either party to this Agreement), any action or proceeding to enforce or interpret any provision of this Agreement shall be brought, commenced or prosecuted in the County of Tulare, California.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

BORROWER:

TULARE LOCAL HEALTHCARE DISTRICT,
a local health care district of the State of California

By: _____
Name:
Title:

LENDER:

CITY OF TULARE, CALIFORNIA
a California incorporated City

By: _____
Name:
Title: